

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Status Review

Cochise Elementary School District No. 26

As of November 15, 2006



Debra K. Davenport
Auditor General

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March 13, 2007

Governing Board
Cochise Elementary School District No. 26
P.O. Box 1088
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Members of the Board:

In our April 2006, procedural review report we notified you that the District had not complied with the *Uniform System of Financial Records* (USFR). The District was given 90 days to implement the recommendations in our report. We subsequently performed a status review of the District's internal controls as of November 15, 2006. The purpose of our status review was to determine whether the District was in substantial compliance with the USFR as of the date of our review. Our review consisted primarily of inquiries and selective testing of accounting records and control procedures. The review was more limited in scope than would be necessary to express an opinion on the District's internal controls. Accordingly, we do not express an opinion on its internal controls or ensure that all deficiencies were disclosed.

Based on the number and nature of the deficiencies noted in our status review, the District still has not complied with the USFR. Further, as of the date of this letter, we have not received the District's audit reports for the years ended June 30, 2004 and 2005, and USFR Compliance Questionnaire for the year ended June 30, 2005. These reports were due by March 31, 2006. Consequently, the District remains in noncompliance with the USFR for internal control deficiencies and nonsubmission of audit reports. Within a few days, we will issue a letter notifying the Arizona State Board of Education of the District's continued noncompliance. Recommendations to correct these deficiencies are described in this report. District management should implement these recommendations to ensure that the District fulfills its responsibility to establish and maintain internal controls that will adequately comply with the USFR. We have communicated specific details for all deficiencies to management for corrections.

Thank you for the assistance and cooperation that your administrators and staff provided during our status review. My staff and I will be pleased to discuss or clarify items in this report.

Sincerely,

Debra K. Davenport
Auditor General

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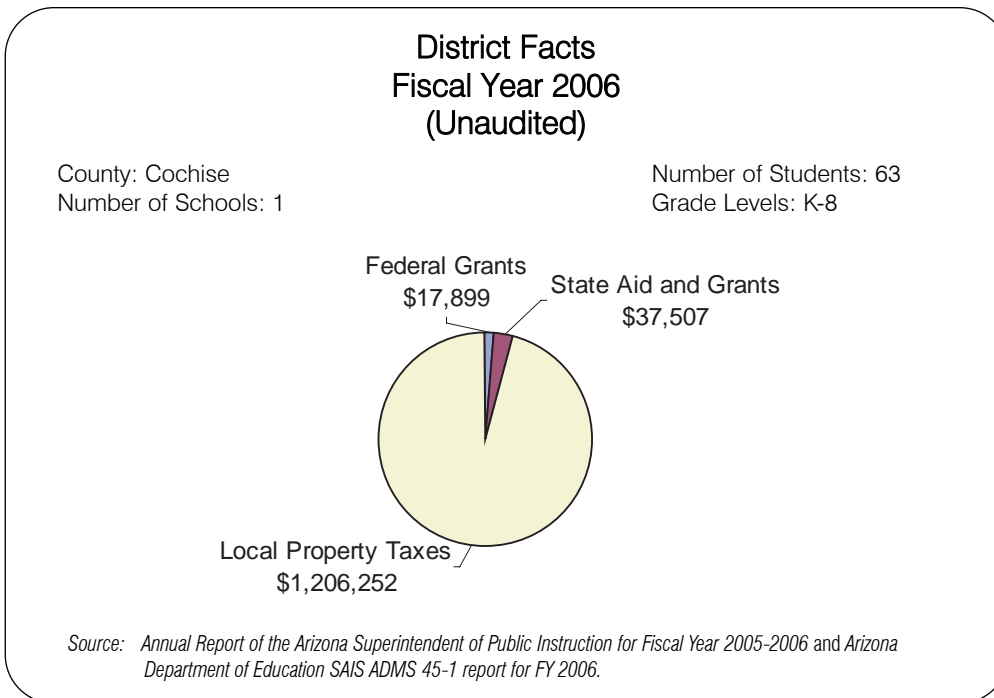
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INTRODUCTION

Cochise Elementary School District No. 26 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$1.2 million it received in fiscal year 2006 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education. The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our status review, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.



The District should maintain capital assets and stewardship lists

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. Effective stewardship requires the District to have accurate lists of these assets and to ensure that they are properly accounted for. However, the District did not have a capital assets list for items costing \$5,000 or more, or a stewardship list for items costing between \$1,000 and \$5,000. In addition, the District did not prepare a list of current year acquisitions or disposals and did not reconcile capital acquisitions to capital expenditures. Further, the District's physical inventory was not performed in accordance with USFR guidelines.

The District did not protect its investment in capital assets, since it did not prepare capital assets or stewardship lists.

Recommendations

The following procedures can help the District improve control over its capital assets and help ensure that accurate and complete capital assets and stewardship lists are maintained:

- Prepare and maintain a capital assets list of all assets costing \$5,000 or more with useful lives of 1 year or more, and a stewardship list of all equipment items costing between \$1,000 and \$5,000. Include all required information for each item on the lists.
- Retain cost documentation for all items on the capital assets list and verify that the cost of each item on the list agrees to such documentation. If the District cannot locate documentation to support the actual costs of assets, it may use estimated historical costs obtained from appraisals, bond issue documents, governing board minutes, or vendor catalogs.
- Perform a physical inventory of all equipment items at least every 3 years, following USFR guidelines. Retain all written instructions, inventory sheets, and other documents relating to the physical inventory.
- Assign an employee who has no custodial responsibilities to reconcile the physical inventory to the capital assets and stewardship lists, and add items to or remove items from the lists as necessary.
- Reconcile items added to the capital assets list during the fiscal year to capital expenditures, and make all necessary corrections.

USFR pages VI-E-2 and 3 and USFR Memorandum No. 196 describe information that should be included on the capital assets and stewardship lists.

The District should improve controls over expenditures

The District spends tax dollars to purchase goods and services, so it is essential that the District follows procedures designed to help ensure that all expenditures are appropriate and adequately supported and that it receives the best possible value for the public monies spent. However, the District did not ensure that all expenditures were appropriate, properly authorized, and supported. Specifically, the District did not always prepare purchase orders for credit card purchases before making them, retain itemized receipts to support credit card purchases, or document that credit card receipts were reviewed to confirm that purchases were appropriate. Additionally, the District did not always obtain oral price quotations for purchases that required them or ensure that purchases made through a purchasing cooperative were bid in accordance with the School District Procurement Rules.

The District did not always follow proper purchasing procedures.

Further, the District inappropriately used Food Service Fund monies to purchase food for a teachers' in-service training session without documenting governing board approval that the expenditure served a public purpose and that its cost did not greatly exceed the benefit provided. Also, the District did not always classify expenditures in accordance with the USFR Chart of Accounts and did not perform mathematical accuracy checks of vendor invoices prior to payment.

Recommendations

To improve controls over expenditures, the District should:

- Prepare and approve purchase orders for credit card purchases to designate available cash or budget capacity. If blanket purchase orders are used, specify periods of time that the purchase orders are in effect and the dollar limits.
- Obtain and review receipts for all credit card transactions to ensure that the transactions are appropriate.
- Obtain oral price quotations from at least three vendors for purchases that individually or in the aggregate are estimated to cost between \$5,000 and \$15,000, and retain documentation of all quotations received. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations.

- Perform and document the due diligence procedures performed for a sample of the purchasing cooperative's contracts that the District plans to use. This will help ensure that cooperative contracts were bid in accordance with the School District Procurement Rules.
- Ensure and document that public monies are not spent for the benefit of private individuals unless there is a public purpose served by the expenditure and the value is not far exceeded by the amount paid. The Governing Board should ensure that expenditures do not violate the gift of public monies clause in the Arizona Constitution, Article 9, §7.
- Classify expenditures in accordance with the USFR Chart of Accounts.
- Check vendor invoices for mathematical accuracy and document the checks on the invoices.

The District's procedures for processing payroll need improvement

Documentation was not always approved or retained to support amounts paid to hourly and temporary employees.

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical that the District has strong payroll controls to ensure that employees are paid accurately. However, the District did not have adequate controls over payroll processing. For example, amounts paid to hourly employees were not always supported by timecards signed by a supervisor. Additionally, documentation was not always prepared and retained to support the pay rate for temporary employees. Further, the District regularly paid two hourly employees without a delay between the end of the pay period and the date that wages were paid.

Recommendations

To help strengthen controls over payroll expenditures, the District should ensure that hourly employees prepare timecards that indicate the dates and hours worked, leave taken, and employees' signatures each pay period. Supervisors should review and sign all timecards as support for amounts paid and vacation or sick leave used. Additionally, the District should prepare and retain all required documentation in employee personnel files to support employee eligibility, qualifications, and salary and deduction amounts. Finally, the District should establish a delayed payroll system for all employees that allows adequate time between the end of the pay period and the pay date to ensure that employees are paid only for wages earned.

The District should strengthen controls over food service monies

Because of the relatively high risk associated with cash transactions, the District should have effective internal controls to safeguard cash, reconcile cash receipts, and ensure that disbursements are proper. However, the District did not have an employee independent of recording transactions for food services reconcile meals served, sales recorded, and cash collected. Additionally, the District inappropriately allowed adults to charge meals and did not always ensure that checks drawn on the food service clearing account were completed with payees and amounts before being signed.

Recommendations

To help strengthen controls over cash, a district employee should prepare daily reports of sales, cash collected, and meal credits or charges for students. A second employee not involved in receiving cash or recording sales should reconcile these amounts and investigate all cash overages and shortages. If the same employee must perform multiple functions, a district official should review and approve the daily reports and reconciliations to help ensure that established procedures are followed. Further, the District should not allow adults to charge food purchases and should require adults to immediately pay all amounts owed. Finally, the District should ensure that all checks drawn on the food service clearing account are only for deposits to the District's account with the County Treasurer and that payees and amounts are completed before checks are signed.